

Message Text

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TO AMEMBASSY SANTO DOMINGO

INFO AMEMBASSY PORT AU PRINCE

AMEMBASSY PORT OF SPAIN

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AMCONSUL CURACAO

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E.O. 11652: N/A

TAGS: ETRN, DR, US

SUBJECT: PUERTO RICAN MARITIME AUTHORITY

REF: SANTO DOMINGO 2980

1. ON JUNE 10 PR GOVERNOR SIGNED LEGISLATION CREATING
MARITIME AUTHORITY WHICH PROVIDES FOR PURCHASE OF 12
VESSELS AND ABOUT 14,000 CONTAINERS AT A COST OF 60
MILLION DOLLARS, EXCLUSIVE OF INTEREST, FROM THREE LINES
(SEALAND, SEATRAN AND TTT) OPERATING BETWEEN US AND PR.
A SEVEN-MAN BOARD OF DIRECTORS WHICH WILL APPOINT A CHIEF
EXECUTIVE WILL SET MANAGEMENT POLICIES AND ALSO SELECT AN
EXPERIENCED COMPANY (NEGOTIATIONS ARE UNDERWAY WITH
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REYNOLDS, INC., SEA-LAND'S PARENT, TO CREATE MANAGEMENT

COMPANY STAFFED BY FORMER SEA-LAND PR DIVISION EMPLOYEES) TO OPERATE THE PR-OWNED, AMERICAN FLAG FLEET. THE AUTHORITY HAS POWER TO ISSUE BONDS UP TO 60 MILLION DOLLARS, HALF FOR DOWN PAYMENT AND REMAINDER TO BE USED AS WORKING CAPITAL. THE AUTHORITY WILL BE REQUIRED TO MAKE REASONABLE RETURN ON INVESTMENT WHILE "REDUCING RATES".

2. STATED PUBLIC REASON FOR TAKEOVER IS INCREASING OCEAN FREIGHT RATES WHICH PR LEADERS BLAME FOR HIGH PRICE OF CONSUMER GOODS ON ISLAND. THE US-PR TRADE WAS THE FIRST

FULLY CONTAINERIZED TRADE. HOWEVER, THE OVER-ALL EFFICIENCIES DUE TO CONTAINERIZATION ENJOYED BY THE COMMONWEALTH DURING THE PAST DECADE HAVE BEEN WHITTLED AWAY BY INFLATION AND RISING LABOR AND OTHER OPERATING COSTS. REPORTEDLY, THE PR GOVERNMENT FEARS INCREASING TRANSPORTATION COSTS WILL JEOPARDIZE ITS DEVELOPMENT PLAN AND BELIEVES THAT BY CONSOLIDATING SHIPPING SERVICES IT CAN ACHIEVE ADDITIONAL ECONOMIES. IN THIS REGARD, A STUDY CARRIED OUT ON BEHALF OF THE PR GOVERNMENT ESTIMATED CONSOLIDATION MIGHT SAVE UPWARDS TO 40 MILLION DOLLARS ANNUALLY.

3. NEGOTIATIONS BETWEEN REYNOLDS AND THE NEW AUTHORITY MAY BE COMPLETED BY AUGUST WHICH WOULD ALLOW COMMENCEMENT OF THE NEW SERVICE SEPTEMBER 1. SEA-LAND IS EXPECTED TO ENTER INTO TRANSSHIPMENT ARRANGEMENTS WITH THE NEW COMPANY WHEREIN THE LATTER WILL ALSO CARRY SEA-LAND CARGOES FROM U.S. PORTS TO PUERTO RICO FOR TRANSSHIPMENT BY SEA-LAND TO OTHER CARIBBEAN POINTS. THESE CARGOES WILL MOVE FROM THE U.S. TO THEIR DESTINATION AT SEA-LAND FREIGHT RATES ON FILE WITH THE FEDERAL MARITIME COMMISSION. RATES THAT MAY BE FILED BY THE NEW PR-OWNED LINE WILL APPLY SOLELY TO TRADE BETWEEN THE ISLAND AND THE MAINLAND.

4. PRESENTLY, THREE PR ILA UNIONS SERVICE THE THREE LINES IN THE TRADE. WITH CONSOLIDATION THERE WILL BE JURISDICTIONAL PROBLEMS TO RESOLVE. MOREOVER, THERE LIMITED OFFICIAL USE

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ARE REPORTS THAT THE PR ILA IS CONSIDERING PUSHING FOR A GUARANTEED ANNUAL WAGE FUND. THE MARITIME AUTHORITY IS AWARE THAT ANY PROLONGED DISRUPTIONS DUE TO LABOR DIFFICULTIES WOULD ADVERSELY AFFECT SAN JUAN TRANSSHIPMENT OPERATIONS AS WELL AS THE NEW COMPANY'S CONTAINER LOAD FACTOR (CARRIAGE OF TRANSSHIPMENT CARGOES) FROM THE US.

5. DISCUSSIONS WITH A SEA-LAND OFFICIAL INDICATE SEA-LAND IS AWARE OF THE POSSIBILITY OF DISRUPTION IN ITS CARIBBEAN SERVICE IF UNEXPECTED PROBLEMS OR DIFFICULTIES ARE ENCOUNTERED DUE TO PR MARITIME AUTHORITY POLICIES AND/OR ACTIONS OF THE PR ILA. WITH THIS IN MIND, SEA-LAND HAS DEVELOPED CONTINGENCY PLANS (DIRECT SERVICE FROM THE U.S. AND/OR TRANSHIPPING AT ANOTHER PORT) TO INSURE CONTINUED SERVICE TO OTHER CARIBBEAN POINTS.

6. EMBASSY, AT ITS DISCRETION, MAY DISCUSS FOREGOING INFORMALLY WITH DR AUTHORITIES TO ALLAY ANY APPREHENSION RE SEA-LAND SERVICE TO THE DR. INGERSOLL

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